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ABSTRACT

Since 1951, Federal impact aid payments under P.L. 81-874 have been made to local educational agencies (LEAs) for (1) the education of pupils residing with parents who live and/or work on federal property or have a parent in the uniformed services of the United States; and (2) for the loss of tax revenue attributable to the Federal Government's purchase of land. In fiscal year 1987, section 3 (education of pupils) payments were $663 million and section 2 (loss of tax revenue) payments were $22 million. The 100th Congress is considering this program's reauthorization. This paper summarizes the payment procedures, participation levels, and proposed reauthorization options. Under the formula for calculating section 3 payments, the three principal factors are the LEA's local contribution rate, or payment per pupil amount; types of pupils eligible for payment; and payment index (extent of burden) for each type of pupil. Annual appropriations acts for the Department of Education have placed further constraints on impact aid payments. Legislative proposals have been presented by the Administration and the National Association of Federally Impacted Schools, the principal membership group representing LEA's receiving impact aid payments. Options may be classified under five categories: method for counting pupils, payment amounts per pupil, supplemental funding, thresholds for LEA payment eligibility, and program administration. Included is an appendix explaining categories of federally connected students. (MLH)

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CRS REPORT FOR CONGRESS

SCHOOL ASSISTANCE FOR FEDERALLY AFFECTED AREAS (IMPACT AID): BACKGROUND AND REAUTHORIZATION OPTIONS FOR P.L. 81-874

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ABSTRACT

Under P.L. 81-874, Federal financial assistance in lieu of local taxes are made to local educational agencies in areas where enrollments and local revenues are adversely affected by Federal activities. Payments are authorized on the basis of the proportion of the LEA's real property purchased by the Federal Government or the number of pupils residing with parents who live and/or work on Federal property or have a parent in the uniformed services of the United States. The 100th Congress is considering this program's reauthorization. This paper contains a summary of the payment procedures, participation levels, and proposed reauthorization options.

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SUMMARY

Since 1951, Federal impact aid payments under P.L. 81-874 have been made to local educational agencies (LEAs) for (1) the education of pupils residing with parents who live and/or work on Federal property or have a parent in the uniformed services of the United States, and (2) for the loss of tax revenue attributable to the purchase of land by the Federal Government. Payments are made under section 3 of P.L. 81-874 for the education of pupils and under section 2 for the loss of tax revenue. In fiscal year (FY) 1987, section 3 payments were $663 million, and section 2 payments were $22 million.

Under the formula for calculating payments under section 3, the three principal factors are the LEA's local contribution rate (LCR), or payment per pupil amount; types of pupils eligible for payment; and payment index (extent of burden) for each type of pupil. Annual appropriations acts for the Department of Education have placed further constraints on impact aid payments.

Legislative proposals have been presented by the Administration and the National Association of Federally Impacted Schools (NAFIS), the principal membership group representing LEAs that receive impact aid payments. Options may be classified under five categories -- method for counting pupils, payment amounts per pupil, supplemental funding, thresholds for LEA eligibility for payments, and program administration.

SCHOOL ASSISTANCE FOR FEDERALLY AFFECTED AREAS (IMPACT AID):
BACKGROUND AND REAUTHORIZATION OPTIONS FOR P.L. 81-874

For over 30 years, Federal impact aid payments under P.L. 81-874 have been made to local educational agencies (LEAs) because of Federal activities affecting the LEAs. The first section of this paper contains a brief description of the program, pupil participation data, and payment information for the current program. The second section contains a summary discussion of the principal options proposed by the Administration and the National Association of Federally Impacted Schools (NAFIS), the principal membership group representing LEAs that receive impact aid payments.

BACKGROUND INFORMATION ON IMPACT AID

Impact aid payments under P.L. 81-874 were first authorized in 1950 because the Federal Government's presence as an employer or the Federal ownership of lands either (1) had reduced the amount of taxable land in LEAs (section 2 of P.L. 81-874), and/or (2) had resulted in an influx of pupils to be educated by the LEAs (section 3 of P.L. 81-874). The initial rationale for impact aid payments was that the Federal payments were considered to be in lieu of local property tax receipts.

Impact aid payments are Federal general aid funds allocated to LEAs for the maintenance and operation of schools. LEAs submit applications to the Department of Education (ED), and the Secretary of Education makes the payments

on a formula basis directly to LEAs. Upon receipt by LEAs, funds are commingled with State and local general school operation funds and may be used for any legal expenditures related to the operation and maintenance of schools. When Federal auditors visit the LEAs, their concern is to verify the eligibility of the Federal property and the counts of eligible pupils rather than the use of funds.

Under section 2 of P.L. 81-874, Federal payments are provided to those LEAs in which 10 percent or more of the assessed value of all real property in the LEA, as of the time or times of acquisition, has been purchased by the Federal Government since 1938. The fiscal year (FY) 1987 appropriation for section 2 is $22 million. The FY 1988 budget request of $10 million assumes the adoption of a set of proposed Federal regulations that contain a more restrictive definition of Federal property on which payments will be based.

Section 3 of P.L. 81-874 provides Federal payments for the education of (1) section 3(a) pupils who reside with parents who live on and work on Federal property, and (2) section 3(b) pupils who reside with parents who live on or work on Federal property, or whose parents are in the uniformed services of the United States. An LEA's section 3 payment is calculated using the number of pupils in each type, the "dollar" per pupil payment amount based on per pupil expenditures (local contribution rate [LCR]), the entitlement percentage (of the LCR) for each type of pupil established by statute, and the various reduction factors required by the authorizing and appropriations statutes. The FY 1987 appropriation for section 3 payments is $663 million. The FY 1988 budget request of $533 million assumes adoption of a provision under which payments would be made only for section 3(a) pupils whose parents live and work on Federal property.

Historical information and a summary of the impact aid provisions may be found in the CRS report: The Impact Aid Programs Under Public Laws 81-874 and 81-815: Financial Assistance for Local Education Agencies in Areas Affected by Federal Activities, January 27, 1987 [by] Rick Holland. One difficulty in developing an understanding of the program is that current allocation procedures typically are different from the provisions of the authorizing legislation because provisions in the annual appropriation legislation have been used to override the authorizing language for the past few years. In the event of insufficient funds to provide full payments to LEAs under provisions of the authorizing statute, detailed provisions for payment rates and proration have been included in the annual appropriations legislation.

Basic Program Participation Data

In the last fiscal year for which payments have been completed, FY 1985, Federal payments of $637 million were made to LEAs for the education of over 2 million federally connected pupils in about 2,700 LEAs. In the following section of the paper, participation and funding information, aggregate payments, and data on the number of eligible students for the current program have been calculated from a summary of FY 1985 payments prepared by ED (dated 12-17-86). Summary information on the total number of pupils and funding by major category is displayed in table 1. Definitions of the various types of pupils under the current provisions of section 3 of P.L. 81-874 are in attachment A.

As shown in table 1, in FY 1985, under the impact aid program, military-connected pupils accounted for almost 27 percent of the total pupils, and almost 49 percent of the total payments. Pupils residing on Indian lands accounted for slightly less than 5 percent of the total pupils, and almost 35

percent of the funds. Pupils with civilian parents represented almost 68 percent of the total number of pupils, and accounted for just over 16 percent of the FY 1985 payments.

TABLE 1. Number and Funding Level for Major Categories of Impact Aid Pupils (section 3 of P.L. 81-874) (FY 1985).

Type of pupils	Number of pupils	Percent of total number of federally connected pupils	FY 1985 funding (000)	Percent of total FY 1985 appropriations
Military *				
3(a)	221,478	10.8%	$279,637	43.9%
3(b)	327,385	16.0%	32,100	5.0%
Indian 3(a)	98,379	4.8%	221,031	34.7%
Civilian				
3(a)	12,049	0.6%	8,132	1.3%
3(b)	1,385,883	67.8%	96,212	15.1%
TOTAL	2,045,534	100.0%	$637,122	100.0%

Source: CRS calculations from U.S. Department of Education table, dated 12-17-86.

*Note: See attachment A for an explanation of student categories.

Table 2 presents detailed information on the categories of impact aid pupils, and their FY 1985 funding level. Over 60 percent of the total number of pupils who generated impact aid payments was found in two groups of pupils -- those pupils residing with a parent who lived or worked in Federal low-rent housing 1/ [section 3(b)(1)LRH], and those pupils residing with a parent who lived on or worked on Federal property situated in whole or in part in the county in which the school district was located [section 3(b)(2)(A)]. However,

1/ LRH refers to pupils residing in low-rent housing that qualifies under the regulations.

payments for those pupils accounted for less than 14 percent of the total section 3 impact aid funds in FY 1985. The third largest group was those pupils residing on non-Federal property, but with a parent on active duty in the uniformed services of the United States (section 3(b)(3)); those pupils represented over 15 percent of the total student count, but accounted for less than 5 percent of the total funds in FY 1985.

Pupils residing on Federal property and having a parent on active duty in the uniformed services of the United States (sections 3(a)(2), 3(a)(2) LRH, and 3(a)(2) SPED), 2/ and pupils residing on Indian lands (sections 3(a)(2) IND 3/ and 3(a)(2) SPEDIND) accounted for less than 15 percent of the total pupils, but payments for them represented almost 70 percent of the funds in FY 1985.

LEAs may use the Federal impact aid funds for current operation and maintenance of the schools, and the funds do not have to be used to provide programs and services specifically for the pupils who generated the funds. However, the program does have two constraints -- (1) if the LEA receives the additional 25 percent payment for Indian children, parents of these children must be provided with information about evaluations and program plans and an opportunity to present their views on the program; and (2) if an LEA is to receive the additional 50 percent payment for handicapped pupils, each of these pupils must have an individualized education program as required under part B of the Education of the Handicapped Act (P.L. 94-142).

2/ SPED refers to handicapped pupils with an individualized education program under the provisions and regulations of P.L. 94-142.

3/ IND refers to Native American Indian pupils residing on Federal Indian lands.

In addition to the count of students by type or category for each LEA, the payment calculation process for each LEA includes a local contribution rate (LCR), or per pupil payment amount, for each LEA.

TABLE 2. Number and Funding Level for Categories of Impact Aid Pupils (section 3 of P.L. 81-874) (FY 1985).

Type of pupils	Number of pupils	Percent of total number of pupils	FY 1985 funding (000)	Percent of FY 1985 appropriation
Military-Connected Pupils *				
3(a)(2)	204,305	9.99%	$248,634	39.03%
3(a)(2) LRH	1,352	0.07%	$186	0.03%
3(a)(2) SPED	15,821	0.77%	$30,817	4.84%
3(b)(3)	311,190	15.21%	$29,543	4.64%
3(b)(3) SPED	16,195	0.79%	$2,557	0.40%
Indian Lands Pupils				
3(a)(2) IND	89,243	4.36%	$188,794	29.63%
3(a)(2) SPEDIND	9,496	0.46%	$32,237	5.06%
Civilian Connected Pupils				
3(a)(1)	5,403	0.26%	$7,055	1.11%
3(a)(1) LRH	6,646	0.32%	$1,077	0.17%
3(b)(1)	2,032	0.10%	$127	0.02%
3(b)(1) LRH	714,532	34.93%	$45,283	7.11%
3(b)(2)(A)	537,869	26.29%	$42,706	6.70%
3(b)(2)(A) LRH	6,381	0.31%	$385	0.06%
3(b)(2)(B)	124,934	6.11%	$7,705	1.21%
3(b)(2)(B) LRH	135	0.01%	$6	0.00%
TOTAL	2,045,534	100.00%	$637,112	100.00%

Source: CRS calculations from U.S. Department of Education table, dated 12-17-86.

*Note: See attachment A for an explanation of student categories.

Local Contribution Rate (LCR)

LCR refers to the "dollar" per pupil payment rate that is used in calculating payments Federal impact aid payments to LEAs. The rates vary among LEAs to permit recognition of the differences in per pupil current expenditures among LEAs. LEAs are paid on the basis of the LCR that provides the largest amount per pupil -- one-half the national average per pupil expenditure (NAPPE), one-half the State average per pupil expenditure (SAPPE) in which the LEA is located, or an amount based on the per pupil current expenditures in a group of "comparable" LEAs. 4/ LCRs used by States are shown in table 3.

4/ According to 34 CFR 223.33, "Comparable" LEAs are those identified by the LEA and accepted by Ed as having grade span, size, and location characteristics similar to the LEA.

TABLE 3. FY 1987 Local Contribution Rates for LEAs Receiving Impact Aid Funds.

Type of LCR used by LEAs in the State		
1/2 National Average	1/2 State Average	Individually comparable LEAs
Alabama	Alaska	California*
Arizona	Delaware	Colorado#
Arkansas	District of Columbia	Connecticut#
Florida	Hawaii	Illinois#
Georgia	Minnesota	Iowa#
Guam	Rhode Island	Kansas#
Idaho	Vermont	Maryland#
Indiana	Washington	Massachusetts#
Kentucky		Michigan#
Louisiana		Missouri*
Maine		Montana#
Mississippi		Nebraska#
Nevada		New Hampshire*
New Mexico		New Jersey#
North Carolina		New York#
North Dakota		Ohio*
Oklahoma		Oregon#
South Carolina		Pennsylvania#
Tennessee		South Dakota*
Texas		Virginia*
Utah		Wisconsin#
Virgin Islands		Wyoming#
West Virginia		

Source: Unpublished table from Department of Education, Division of Impact Aid, dated April 9, 1987.

* Indicates a minimum payment rate for comparable LEAs of no less than one-half the national average per pupil expenditure ($1,686).

# Indicates a minimum payment rate for comparable LEAs of no less than one-half of the State average per pupil expenditure in which the State is located (varies by State, but is in excess of the national average per pupil expenditure).

The FY 1987 LCR amount for one-half of the NAPPE is $1,686, and the FY 1987 LCR amounts for one-half of the SAPPE range from $3,880 in Alaska to $1,698 in Nebraska. Those States whose SAPPE is less than the national average use the NAPPE because the choice provides them with additional funds. The

types of LCRs used for FY 1987 by the LEAs in the various States 5/ are shown in table 3. LEAs in 23 States used the NAPPE as their LCR, and LEAs in 8 States used the SAPPE. LEAs in 16 States used the greater of the amount for comparable LEAs, or the SAPPE; and those in 6 States used the greater of the amount for the comparable LEAs, or the NAPPE. States using the NAPPE tend to spend comparatively less on elementary and secondary education, and those using the SAPPE tend to spend more than the national average.

The use of an LCR that is one-half the SAPPE or NAPPE may provide an LEA with more funds per pupil than would be generated if the Federal activity or presence did not exist. This might occur in those States in which a small percentage of school revenues come from local tax sources. The impact aid payments are in lieu of local tax revenues, and considerable variations exist among the States in the percent of school funds that come from local revenue sources. For example, nationally for the 1986-87 school year, estimates from the National Education Association (NEA) indicate that, for all States, 50.0 percent of school revenue receipts came from State sources, 6.2 percent from Federal sources, and 43.8 percent from local sources. The percent from local tax sources ranged from highs of 90.2 percent in New Hampshire and 67.2 percent in Nebraska to lows of 11.8 percent in New Mexico and 17.5 percent in Alabama, and 17.6 percent in Alaska. 6/

5/ For the purposes of the impact aid program, there are 53 States because of the inclusion of Guam, Virgin Islands, and District of Columbia.

6/ Data-Search. Estimates of School Statistics, 1986-87. National Education Association. 1987. p. 39.

Entitlement Level for Types of Pupils

The authorizing statute (P.L. 81-874) stipulates an entitlement level for each type of pupil. These entitlement levels in P.L. 81-874 vary according to the degree of financial burden perceived to be associated with the various types of pupils. As shown in table 4, entitlement levels are expressed as percentages of the LCR that then are used in calculating payments to LEAs.

The highest current statutory entitlement levels in the P.L. 81-874 authorizing legislation is 187.5 percent of the LCR for handicapped pupils (section 3(a)(2) SPEDIND) residing on Federal Indian lands. This payment results from a combination of three factors -- residence on Federal Indian lands, program planning for Indian pupils, and a handicapped pupil with an individualized educational program. (The 150 percent multiplier applied to the entitlement LCR for handicapped pupils applies only to section 3(a) pupils.)

The lowest current payment in the P.L. 81-874 authorization legislation is 40 percent of the LCR for pupils (section 3(b)(2)(B) residing with parents who live or work on Federal property in the State in which the school they attend is located (out of county of residence, but in State). (The lowest actual payment in the FY 1987 appropriations legislation results from the limitation on payments to LEAs for eligible pupils residing in low-rent housing (LRH) to no more than 15 percent of entitlement; this is required by the FY 1987 appropriations act for Department of Education programs (P.L. 99-500).)

The entitlement levels in the current provisions of the authorizing statute for each of the 15 types of pupils are shown in table 4.

TABLE 4. Statutory Entitlement Levels (Amount of Payment) in P.L. 81-874 (authorizing statute) as a Percent of the Local Contribution Rate (LCR) for the Categories of Impact Aid Pupils (section 3 of P.L. 81-874).

Type of pupils	P.L. 81-874 entitlement levels as percent of LCR
Military-Connected Pupils	
3(a)(2)	100
3(a)(2) LRH	100
3(a)(2) SPED	150
3(b)(3)	50
3(b)(3) SPED	75
Indian Lands Pupils	
3(a)(2) IND	125
3(a)(2) SPEDIND	187.5
Civilian Connected Pupils	
3(a)(1)	90
3(a)(1) LRH	90
3(b)(1)	45
3(b)(1) LRH	45
3(b)(2)(A)	45
3(b)(2)(A) LRH	45
3(b)(2)(B)	40
3(b)(2)(B) LRH	40

OPTIONS

In contrast to most other Federal education programs, in recent years, annual appropriations acts for the Department of Education have included modifications in the impact aid allocation formula. Typically, for other programs, changes in the allocation formula are made primarily through the authorizing statute. This pattern has contributed to some confusion as to what is current law concerning impact aid. For example, the limitation of 15 percent of entitlement on payments for low-rent housing pupils has been affected through the annual appropriations acts rather than in the authorizing statute. In addition, the annual appropriations acts have varied the payment

amounts to an LEA in accordance with the percent that the impact aid pupils are of the total pupils in the LEA.

The following options include major changes proposed for the impact aid program. 7/ Since impact aid payments are based on the number of pupils and the payment rate (LCR) per pupil, the principal options are related to (1) change the method of determining which pupils would be eligible for funding, (2) adjust the payment amount per pupil, (3) adjust the thresholds that an LEA must meet before being eligible for funding, (4) change the system for supplemental payments, and (5) procedures for preliminary payments.

These options were contained in the reauthorization proposals from the Administration 8/ and the June 1987 proposal of the National Association of Federally Impacted Schools (NAFIS). Both documents contained a variety of recommendations, but the following options are limited to broad changes that have policy implications rather than technical amendments. Several of the NAFIS legislative proposals were distributed in draft form during consideration of H.R. 5 by the Committee on Education and Labor, and later were included in H.R. 2788 (Hayes et al.).

7/ Alternatives for changing school finance equalization provisions in section 5(d)(2) of P.L. 81-874 are discussed in another CRS report: Impact Aid and School Finance Equalization Programs.

8/ Letter containing the Administration recommendations for reauthorization of P.L. 81-874 from Secretary Bennett to the Speaker of the House and the President of the Senate, dated April 20, 1987.

Method for Counting Pupils

1. Terminate payments for all section 3(b) pupils. 9/

   This Administration proposal would result in a reduction in the number of pupils for which payments would be made and a reduction in the number of LEAs that would receive payments. LEAs most affected by this proposal would be the small number of LEAs with high proportions of section 3(b) pupils or high proportions of section 3(a) and 3(b) pupils, and in urban LEAs with large numbers of pupils residing in low-rent housing.

2. Repeal the 1986 provision that requires ED to count full-day kindergarten section 3 pupils as half-time pupils when the State counts them as half-time pupils for purposes of State aid.

   This Administration proposal would permit payments to be consistent with actual LEA practices in kindergarten programs.

3. Change the methods for counting pupils from average daily attendance (ADA) to average daily membership (ADM). 10/

   This NAFIS proposal would increase the total number of pupils for which payments would be made and would provide relatively small amounts of additional funds to LEAs with lower than average rates of pupil attendance.

9/ Another option would be to terminate payments for all section 3(b) pupils except those whose parents are uniformed personnel in the armed services of the United States. Except for the termination of payments for low-rent housing pupils, the general consensus is that section 3(b) pupils with civilian parents do not pose a significant burden because, in most cases, the tax contribution of their parents is similar to that of other parents of non federally connected pupils in the school community.

10/ ADA refers to the average number of pupils actually attending the LEA's schools for a given period of time; and ADM refers to the average number of pupils on the LEA's roster of pupils for a given period of time. Students counted under ADM would be those enrolled on any given day, but may not be attending and counted for purposes of ADA.

Payment Amounts Per Pupil 11/

1. Change the impact aid payment system to provide LEAs with higher percentages of eligible pupils with more funds per pupil. Both the Administration and NAFIS have presented proposals on this option. 12/

   The Administration has proposed three payment levels for section 3(a) pupils and no funds for section 3(b) pupils. The pay system is designed to be accommodated within the $533 million requested in the FY 1988 budget.

   NAFIS has proposed three levels and three pay steps for section 3(a) pupils, and two levels and three pay steps for section 3(b) pupils. The June 1987 NAFIS proposal indicates that full payment of both groups of students at the top pay step would require over $1.9 billion; however, the purpose of the pay steps is to concentrate the funds on the most heavily impacted LEAs when the program is not fully funded.

11/ In addition to the per pupil payment (LCR) options proposed by the Administration and NAFIS, two other options may merit consideration -- (1) eliminate the use of comparable districts in determining the LCR, and either permit the LEA to continue to choose between the State or national average per pupil expenditure, or require the LEA to use an LCR that is the lesser of the one-half the national average per pupil expenditure or one-half of the State average per pupil expenditure; or (2) base an LEA's LCR on the average amount of local revenues in the LEA's State, or the LEA's comparable LEAs, not considered in the calculation of State school finance program payments to the LEA. (This amount is referred to as the leeway revenue received from tax rates above the rate required by the State school finance program.)

The first option would reduce Federal program costs by reducing funds for some LEAs, and would simplify administration of the program. Under the second option, changes in program costs cannot be estimated because the LEA's LCR would be based on the portion of local revenues that are not used in the calculation of State aid. The contention can be made that this approach would reflect the LEA's net loss of revenue attributable to the Federal presence.

12/ Detailed information concerning the pay levels proposed by the Administration may be found in the April 20, 1987, letter proposal from Secretary Bennett to the Speaker of the House and the President of the Senate; details of the NAFIS proposal may be found in "Recommendations for the Reauthorization of Public Law 81-874 -- 'IMPACT AID'" dated June 1987 from the National Association of Federally Impacted Schools.

The effect of these proposals would be that the current payment system would be replaced and that those LEAs with the highest proportion of impact aid pupils would receive larger amounts per pupil. The differences are that the Administration would fund only section 3(a) pupils, and NAFIS would continue to fund both section 3(a) and 3(b) pupils. Under both proposals, payment adjustments would be based on the level of funds appropriated.

2. Reduce the method of counting pupils from 15 to 6 categories, i.e, the entitlement would be 100 percent of the LCR for section 3(a) pupils residing with parents who work and live on Federal property or pupils residing on Indian lands, and 25 percent of the LCR for section 3(b) pupils who live with a parent who either resides or works on Federal property or have a parent on active duty in the uniformed service of the United States. (Supplemental payments for handicapped and Indian students would be retained.)

   This NAFIS proposal would simplify the number of pupil categories. The assumption is that there is no difference in the "impact" resulting from section 3(a) pupils whose eligibility is based on their parents being in the uniformed services, civilian employees, or residents on Indian reservations; or section 3(b) pupils whose eligibility is based on their parents being in the uniformed services, civilian employees, or residents in low-rent housing.

3. Reduce the section 3(a) entitlement for pupils living in low-rent housing, with a parent employed on Federal property, to 15 percent of entitlement.

   The Administration has indicated that the purpose of this proposal is to make payments for low-rent housing pupils consistent with the burden imposed by the pupils and the provisions contained in the ED appropriations acts for the past several years.

4. Phase out the provision that permits States with only one LEA, but several administrative units, to have their payments calculated on the basis of the administrative units.

   This Administration proposal provides for a phaseout of the provision in current law that only applies to Hawaii. The rationale is that the Administration opposes special treatment for individual LEAs. (Hawaii operates its public elementary and secondary schools as if they were a single LEA.)

5. Provide that the LCR for LEAs whose boundaries are coterminous with the boundaries of a military base shall not be less than 70 percent of the NAPPE.

This NAFIS proposal would apply to only a few miliary bases that do not have a local property tax base.

Supplemental Funding 13/

1. Change section 3(d)(2)(B) to authorize supplemental payments only when more than 50 percent of the LEA's total ADA consists of section 3(a) pupils, base the eligibility on actual section 3 payments rather than entitlements, change the data used for the comparison of LEA expenditures from the current fiscal year to the previous fiscal year, and limit the amount available for payments to $10 million annually. If the $10 million is not sufficient, prorate the payments.

   This Administration proposal would remove references to section 3(b) pupils, would base the section 3(d)(2)(B) payments on the actual section 3 payments received by the LEA rather than on section 3 entitlements, and would limit the funds for this purpose.

2. Change section 3(d)(2)(B) provisions for calculating supplemental funding to exclude 30 percent of the LEA's funds for current expenditures from the calculation of and LEA's eligibility for funds, use actual impact aid payment rather than entitlement, change the criteria for selection of comparable LEAs used in determining the amount of supplemental funds, and use actual financial data for the two prior years adjusted by the Consumer Price Index.

   This NAFIS proposal would increase the number of LEAs that would receive the supplemental payments and would increase the funds for this purpose.

13/ The Secretary of Education is authorized to provide supplemental funding under section 3(d)(2)(B) when a determination has been made that the total revenues available to the LEA are insufficient to enable the LEA to provide a level of education equivalent to that maintained in comparable LEAs in the State. About 50 LEAs apply each year, and the number of funded LEAs varies from 10 to 20 LEAs. Recipient LEAs typically have large numbers of section 3(b)(3) military connected students.

Thresholds for LEA Eligibility

1. Establish a minimum payment of $5,000 before an LEA may receive a Federal payment under P.L. 81-874. (This provision was in effect in FY 1982 and FY 1983.)

   This Administration proposal would result in a reduction of the number of LEAs receiving funds, less paperwork for ED, and lower appropriations to fully fund the program.

2. Provide that an LEA may receive impact aid payments only when 3 percent or more of its ADA is comprised of eligible section 3(a) pupils. (An alternative would be to count only the excess pupils above 3 percent of the ADA in calculating impact aid payments.)

   The contention of this Administration proposal is that Federal assistance would be provided only to those LEAs that are significantly burdened by Federal activities. (The approximately 2 million public school pupils for which impact aid payments were made in FY 1985 represent about 5 percent of the total public school ADA of about 40 million public school pupils.)

Preliminary Payments

1. Establish two groups of LEAs for preliminary payments. Group 1 would be those in which at least 20 percent of their ADA consists of section 3(a) pupils, limit the LEA's preliminary payments to no more than 75 percent of the amount received in the previous year under section 2 and 3(a). Group 2 would be remaining LEAs; their preliminary payments would be limited to no more than 50 percent of the amount received the previous year for section 2 and section 3(a).

   The effect of this Administration proposal would be to exclude past payments for section 3(b) from the computation for preliminary payments and to reduce the preliminary payments to lightly impacted LEAs. The Administration also contended that the effect would be a reduction in the frequency and amounts of overpayments, and earlier preliminary payments for LEAs.

APPENDIX: CATEGORIES OF FEDERALLY CONNECTED STUDENTS

3(a)(1)	Student residing on Federal property with parent employed on Federal property. The parent is not in the uniformed services of the United States.
3(a)(1)-LRH	Student residing in low-rent housing (LRH) with a parent who is employed in LRH or some other Federal property, and who is not in the uniformed services of the United States.
3(a)(2)	Student residing on Federal property and has a parent on active duty in the uniformed services of the United States.
3(a)(2)-LRH	Student residing in LRH and has a parent on active duty in the uniformed services of the United States.
3(a)(2)-SPED	Special education (SPED) or handicapped student residing on Federal property and has a parent on active duty in the uniformed services of the United States.
3(a)(2)-IND	Student residing on Indian (IND) lands.
3(a)(2)-SPED IND	SPED student residing on IND lands.
3(b)(1)	Student residing on Federal property, parent not employed on Federal property.
3(b)(1)-LRH	Student residing in LRH, parent not employed on Federal property.
3(b)(2)(A)	Student resides on non-Federal property with a parent who is employed on Federal property situated in whole or in part in the county in which the school district is located.
3(b)(2)(A)-LRH	Student residing on non-Federal property with a parent who is employed on LRH property situated in whole or in part in the county in which the school district is located.
3(b)(2)(B)	Student residing on non-Federal property with a parent who is employed on Federal property situated in whole or in part in the State in which the school district is located.
3(b)(2)(B)-LRH	Student residing on non-Federal property with a parent who is employed on LRH property situated in whole or in part in the State in which the school district is located.
3(b)(3)	Student residing on non-Federal property and has a parent on active duty in the uniformed services of the United States.
3(b)(3)-SPED	SPED student residing on non-Federal property and has a parent on active duty in the uniformed services in the United States.